

ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT

REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)

YEAR ENDED JUNE 30, 2005

ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT

ADDITIONAL REPORTS REQUIRED BY

OMB CIRCULAR A-133

YEAR ENDED JUNE 30, 2005

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education
Allegan County Intermediate School District
Allegan, Michigan

August 31, 2005

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Allegan County Intermediate School District as of and for the year ended June 30, 2005, which collectively comprise Allegan County Intermediate School District's basic financial statements and have issued our report thereon dated August 31, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Allegan County Intermediate School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Allegan County Intermediate School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Education
Allegan County Intermediate School District

August 31, 2005

We noted certain matters that we reported to management of Allegan County Intermediate School Districts' in a separate letter dated August 31, 2005.

This report is intended for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mamay, Costenusan & Ellis, P.C.

Certified Public Accountants



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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education
Allegan County Intermediate School District
Allegan, Michigan

August 31, 2005

Compliance

We have audited the compliance of Allegan County Intermediate School District with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Allegan County Intermediate School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of Allegan County Intermediate School District's management. Our responsibility is to express an opinion on Allegan County Intermediate School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Allegan County Intermediate School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Allegan County Intermediate School District's compliance with those requirements.

In our opinion, Allegan County Intermediate School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

August 31, 2005

Internal Control Over Compliance

The management of Allegan County Intermediate School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Allegan County Intermediate School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Allegan County Intermediate School District as of for the year ended June 30, 2005, and have issued our report thereon dated August 31, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Allegan County Intermediate School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mamay, Costensen & Ellis, P.C.

Certified Public Accountants

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005**

Federal grantor/pass-through grantor/program title	CFDA number	Pass-through number	Award amount	Accrued (deferred) 7/1/2004	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) 6/30/2005
<u>U.S. Department of Labor:</u>								
Passed through Area Community Services Employment and Training Council:								
Employment Services	17.207	AC-136-03	\$ 652,443	\$ (10,184)	\$ 628,164	\$ 317	\$ 10,501	-
		AC-136-04	706,583	-	-	627,161	706,583	79,422
			<u>1,359,026</u>	<u>(10,184)</u>	<u>628,164</u>	<u>627,478</u>	<u>717,084</u>	<u>79,422</u>
Workforce Investment Act Cluster:								
Workforce Investment Act Adult Program	17.258	AC-142-03	13,238	5,457	12,728	5,600	143	-
		AC-142-04	46,707	-	-	29,725	46,701	16,976
			<u>59,945</u>	<u>5,457</u>	<u>12,728</u>	<u>35,325</u>	<u>46,844</u>	<u>16,976</u>
Michigan Works Re-location	17.258	N/A	29,991	25,067	25,067	30,611	5,542	(2)
Total CFDA # 17.258			<u>89,936</u>	<u>30,524</u>	<u>37,795</u>	<u>65,936</u>	<u>52,386</u>	<u>16,974</u>
Workforce Investment Act Youth Activities	17.259	AC-053-03	422,880	109,534	405,075	109,785	251	-
		AC-053-04	316,000	-	-	149,271	301,786	152,515
			<u>738,880</u>	<u>109,534</u>	<u>405,075</u>	<u>259,056</u>	<u>302,037</u>	<u>152,515</u>
Michigan Works Re-location	17.259	N/A	39,363	32,900	32,900	40,178	7,274	(4)
Total CFDA # 17.259			<u>778,243</u>	<u>142,434</u>	<u>437,975</u>	<u>299,234</u>	<u>309,311</u>	<u>152,511</u>
Workforce Investment Act Dislocated Workers	17.260	AC-132-03	472,330	66,683	333,983	89,925	23,242	-
		AC-132-04	534,682	-	-	400,152	541,406	141,254
		AC-144-03	8,842	2,508	5,930	5,420	2,912	-
		AC-144-04	56,508	-	-	34,070	56,470	22,400
			<u>1,072,362</u>	<u>69,191</u>	<u>339,913</u>	<u>529,567</u>	<u>624,030</u>	<u>163,654</u>
Michigan Works Re-location	17.260	N/A	24,368	20,367	20,367	24,872	4,503	(2)
Total CFDA # 17.260			<u>1,096,730</u>	<u>89,558</u>	<u>360,280</u>	<u>554,439</u>	<u>628,533</u>	<u>163,652</u>
Total Workforce Investment Act Cluster			<u>1,964,909</u>	<u>262,516</u>	<u>836,050</u>	<u>919,609</u>	<u>990,230</u>	<u>333,137</u>

The accompanying notes are an integral part of this schedule.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005**

Federal grantor/pass-through grantor/program title	CFDA number	Pass-through number	Award amount	Accrued (deferred) 7/1/2004	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) 6/30/2005
<u>U.S Department of Labor (Concluded):</u>								
Incumbent Worker Program	17.267	IW-03-02	\$ 67,205	\$ 10,801	\$ 67,205	\$ 10,801	\$ -	\$ -
Incumbent Worker Program		IW-03-03	51,429	36,804	49,076	19,915	-	16,889
			118,634	47,605	116,281	30,716	-	16,889
Total U.S. Department of Labor			3,442,569	299,937	1,580,495	1,577,803	1,707,314	429,448
<u>U.S. Department of Education:</u>								
Passed through State Department of Education: Title I Part D	84.013	051700-0405	49,643	-	-		49,643	49,643
Passed through State Department of Education: Special Education Cluster: IDEA	84.027	050450-0405	2,595,976	-	-	2,576,037	2,595,976	19,939
		050480-EOSD	40,000	-	-	40,000	40,000	-
		050490-CB	32,254	-	-	32,254	32,254	-
		050490-TS	70,000	-	-	70,000	70,000	-
			2,738,230	-	-	2,718,291	2,738,230	19,939
State TMT Grant	84.027	N/A	4,596	-	-		4,596	4,596
Total CFDA # 84.027			2,742,826	-	-	2,718,291	2,742,826	24,535
Special Education grants to states	84.173	050460-0405	98,297	-	-	98,297	98,297	-
Total Special Education Cluster			2,841,123	-	-	2,816,588	2,841,123	24,535
Vocational Education	84.048	9213	149,088	-	-	149,088	149,088	-
Infants/Toddlers	84.181	041340-190	209,369	-	196,763	12,606	12,606	-
Infants/Toddlers	84.181	051340-190	192,030	-	-	192,030	192,030	-
			401,399	-	196,763	204,636	204,636	-

The accompanying notes are an integral part of this schedule.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005**

Federal grantor/pass-through grantor/program title	CFDA number	Pass-through number	Award amount	Accrued (deferred) 7/1/2004	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) 6/30/2005
<u>U.S. Department of Education (Concluded):</u>								
Passed through State Department of Education (Concluded):								
Even Start Early Education	84.213	050390-A0501IES	\$ 225,000	\$ -	\$ -	\$ 225,000	\$ 225,000	\$ -
Vocational Education	84.243	2713-0304	43,396	30,107	42,821	30,107	-	-
		2713-0405	35,750	-	-		35,587	35,587
			79,146	30,107	42,821	30,107	35,587	35,587
Passed through Michigan Jobs Commission: Rehabilitation Services	84.126	N/A	154,624	13,072	108,340	32,963	43,500	23,609
Passed through Marquette Alger Regional Educational Service Agency: State Improvement	84.323A	030620-03001	9,700	-	-	9,700	9,700	-
Total U.S. Department of Education			3,909,723	43,179	347,924	3,468,082	3,558,277	133,374
<u>U.S. Department of Health and Human Services:</u>								
Passed through Family Independence Agency 0-3 Secondary Prevention	93.556	CTFPR04-03001	26,081	27	20,704	5,146	5,119	-
		CTFPR05-03001	24,832	-	-	19,687	19,687	-
			50,913	27	20,704	24,833	24,806	-
Passed through the Area Community Services Employment and Training Council: Work First	93.558	WF-010-03	790,862	172,616	579,499	387,553	214,937	-
		WF-010-04	827,006	-	-	405,088	600,790	195,702
		WF-032-03	16,184	456	9,548	7,092	6,636	-
			1,634,052	173,072	589,047	799,733	822,363	195,702
Passed through Family Independence Agency Temp. Assist for needy families	93.558	CHPR-02-03001-3	37,600	11,592	37,600	11,592	-	-
		CHPR-02-03001-4	37,600	-	-	28,532	37,600	9,068
			75,200	11,592	37,600	40,124	37,600	9,068

The accompanying notes are an integral part of this schedule.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005**

Federal grantor/pass-through grantor/program title	CFDA number	Pass-through number	Award amount	Accrued (deferred) 7/1/2004	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) 6/30/2005
<u>U.S. Department of Health and Human Services (Concluded):</u>								
Passed through Family Independence Agency (Concluded):								
0-3 Secondary Prevention	93.558	CFTPR04-03001	\$ 126,263	\$ 131	\$ 100,231	\$ 26,421	\$ 26,290	\$ -
		CFTPR05-03001	127,512	-	-	101,090	101,090	-
			<u>253,775</u>	<u>131</u>	<u>100,231</u>	<u>127,511</u>	<u>127,380</u>	<u>-</u>
FIA-CAN	93.558	04-03009	35,000	19,855	35,000	19,855	-	-
		04-03009	35,000	-	-	5,549	35,000	29,451
			<u>70,000</u>	<u>19,855</u>	<u>35,000</u>	<u>25,404</u>	<u>35,000</u>	<u>29,451</u>
Total CFDA # 93.558			<u>2,033,027</u>	<u>204,650</u>	<u>761,878</u>	<u>992,772</u>	<u>1,022,343</u>	<u>234,221</u>
Passed through the Tuscola Intermediate School District:								
Medicaid Health Services	93.778	N/A	16,288	-	-	14,230	16,288	2,058
Total U.S. Department of Health and Human Services			<u>2,100,228</u>	<u>204,677</u>	<u>782,582</u>	<u>1,031,835</u>	<u>1,063,437</u>	<u>236,279</u>
<u>U.S. Department of Transportation</u>								
Passed through Michigan Department of Education								
Motorcycle safety	20.600	036670/201	\$ 93,711	\$ 17,993	\$ 56,611	\$ 55,093	\$ 37,100	\$ -
			13,738			13,738	13,738	-
			98,895	-	-	-	65,398	65,398
			<u>206,344</u>	<u>17,993</u>	<u>56,611</u>	<u>68,831</u>	<u>116,236</u>	<u>65,398</u>
<u>U.S. Department of Domestic Preparedness</u>								
Passed through Department of State Police								
Homeland Security	97.004	N/A	81,400	56,057	56,057	67,083	12,548	1,522
TOTAL FEDERAL AWARDS			<u>\$9,740,264</u>	<u>\$621,843</u>	<u>\$ 2,823,669</u>	<u>\$6,213,634</u>	<u>\$ 6,457,812</u>	<u>\$ 866,021</u>

The accompanying notes are an integral part of this schedule.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PASS THROUGH AMOUNTS
YEAR ENDED JUNE 30, 2005**

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Subrecipient award/contract amount</u>	<u>Due to (from) subrecipient July 1, 2004</u>	<u>(Memo only) Subrecipient prior year expenditures</u>	<u>Subrecipient current year expenditures</u>	<u>Current year cash transferred to subrecipient</u>	<u>Due to (from) subrecipient June 30, 2005</u>
Employment services:	17.207						
ES-136-04							
Passed through to:							
Fennville Public Schools		\$	\$	\$	\$ 66,000	\$ 66,000	\$
Total employment services passed through to subrecipients		\$	\$	\$	\$ 66,000	\$ 66,000	\$
WIA summer youth:	17.259						
WIA-053-04							
Passed through to:							
Fennville Public Schools		\$	\$	\$	\$ 236	\$ 236	\$
Total employment services passed through to subrecipients		\$	\$	\$	\$ 236	\$ 236	\$
Transition services:	84.027						
050490-ITS							
Passed through to:							
Allegan Public Schools		\$	\$	\$	\$ 994	\$ 994	\$
Fennville Public Schools					450	450	
Hopkins Public Schools					261	261	
Martin Public Schools					515	515	
Otsego Public Schools					278	278	
Plainwell Public Schools					1,020	1,020	
Wayland Public Schools					781	781	
Total transition services passed through to subrecipients		\$	\$	\$	\$ 4,299	\$ 4,299	\$
IDEA:	84.027						
50450							
Passed through to:							
Wayland Public Schools		\$	\$	\$	\$ 2,631	\$ 2,631	\$
Total IDEA passed through to subrecipients		\$	\$	\$	\$ 2,631	\$ 2,631	\$

The accompanying notes are an integral part of this schedule.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PASS THROUGH AMOUNTS
YEAR ENDED JUNE 30, 2005**

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Subrecipient award/contract amount</u>	<u>Due to (from) subrecipient July 1, 2004</u>	<u>(Memo only) Subrecipient prior year expenditures</u>	<u>Subrecipient current year expenditures</u>	<u>Current year cash transferred to subrecipient</u>	<u>Due to (from) subrecipient June 30, 2005</u>
Vocational education:	84.048						
3813							
Otsego Public Schools		\$	\$	\$	\$ 215	\$ 215	\$
Wayland Public Schools					240	240	
Total vocational education passed through to subrecipients		\$	\$	\$	\$ 455	\$ 455	\$
PL-94-142 Preschool Incentive:	84.173						
050460/01							
Passed through to:							
Allegan Public Schools		\$	\$	\$	\$ 12,068	\$ 12,068	\$
Fennville Public Schools					8,938	8,938	
Hopkins Public Schools					7,124	7,124	
Martin Public Schools					5,829	5,829	
Otsego Public Schools					8,582	8,582	
Plainwell Public Schools					14,378	14,378	
Wayland Public Schools					27,288	27,288	
Total PL-94-142 Preschool Incentive passed through to subrecipients		\$	\$	\$	\$ 84,207	\$ 84,207	\$
MSA School Based Services:	93.778						
Passed through to:							
Allegan Public Schools		\$	\$	\$	\$ 121,161	\$ 121,161	\$
Fennville Public Schools					56,142	56,142	
Hopkins Public Schools					33,726	33,726	
Martin Public Schools					33,959	33,959	
Ostego Public Schools					62,089	62,089	
Plainwell Public Schools					74,708	74,708	
Wayland Public Schools					113,337	113,337	
Total MSA School Based Services passed through to subrecipients		\$	\$	\$	\$ 495,122	\$ 495,122	\$

ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

NOTES:

1. Basis of Presentation – The accompanying schedule of expenditures of federal awards includes the federal grant activities of Allegan County Intermediate School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and reconciles with the amounts in the preparation of the financial statements.
2. CFDA Programs Special Education Cluster 84.027 and 84.173 was audited as the major program representing 44% of expenditures.
3. The threshold for distinguishing Type A and Type B programs was \$300,000.
4. The expenditures on the schedule of expenditures of federal awards do not include local match.
5. Expenditures in this schedule have been reconciled with Michigan Department of Education financial reports (DS4044, DS4092A, and other applicable reports).
6. Management has utilized the Michigan Department of Education R7120 Grant Section Auditors Report, in preparing this report.
7. Federal revenue per financial statements \$ 7,233,147

Less:

Federal Medicaid receipts not subject to the Single Audit	775,335
	775,335
Expenditures per Schedule of Expenditures of Federal Awards	\$ 6,457,812
8. Subrecipients - Of the federal expenditures presented in the schedule of expenditures of federal awards, Allegan County Intermediate School District provided federal awards to subrecipients reported in the enclosed schedule of pass through amounts.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified: _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified: _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weakness(es)? _____ Yes X None reported

Type of auditors’ report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be Reported with Section 510(a) of OMB Circular A-133? _____ Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.027 and 84.173	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005**

There were no findings for the prior two years.

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Jeffrey C. Stevens
Linda I. Schirmer
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Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Allegan County Intermediate School District
Allegan, Michigan

August 31, 2005

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Allegan County Intermediate School District, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Allegan County Intermediate School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Allegan County Intermediate School District as of June 30, 2005 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2005, on our consideration of Allegan County Intermediate School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Education
Allegan County Intermediate School District

August 31, 2005

The management's discussion and analysis and budgetary comparison information on pages v through xii and 22 through 25, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Allegan County Intermediate School District's basic financial statements. The additional information on pages 27 and 28 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mamay, Costenisan & Ellis, P.C.

Certified Public Accountants

**Allegan County Intermediate School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005**

As management of the Allegan County Intermediate School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the District's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the District's revenue and expenditures by program.

Financial Highlights

Our financial statements provide these insights into the results of this year's operations.

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$9,298,610 (*net assets*). Of this amount, \$4,467,509 (*unrestricted net assets*) may be used to meet the District's ongoing obligations for general district programs.
- The District's total net assets decreased by \$425,337.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$4,495,612, a decrease of \$319,762 in comparison with the prior year.
- At the end of the current fiscal year, the aggregated fund balances for the District's operating funds (general fund, special education fund, and technical education fund) was \$4,495,612 or 23% of the total expenditures of these operating funds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction of the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave).

Both of the government-wide financial statements display functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities). The activities of the District include instruction, support services, community service and transfers to locals and other services. The District has no business-type activities as of and for the year ended June 30, 2005.

The government-wide financial statements can be found on pages 1 and 2 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District fall within the governmental fund type category.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for government activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains numerous governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, special education fund, career technical education fund, and cooperative programming fund, each of which are considered to be a major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts annual appropriated budgets for its general, special revenue and debt service funds budgets. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 3 and 4 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 6 through 20 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgetary information for the District's major funds. Required supplementary information can be found on pages 22 through 25 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the supplementary information. Combining fund statements can be found on pages 27 and 28 of this report.

Our auditor has provided assurance in their independent auditors' report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Required Supplementary Information and the Additional Information identified above. A user of this report should read the independent auditors' report carefully to ascertain the level of assurance being provided for each of the other parts in the financial section.

Government-wide Financial Analysis

The District's net assets were \$9,298,610 at June 30, 2005. Of this amount, \$4,467,509 was unrestricted, a decrease of \$325,387 from last fiscal year. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use those net assets for day-to-day operations.

The following table shows the District's net assets in 2005 and 2004.

District's Net Assets

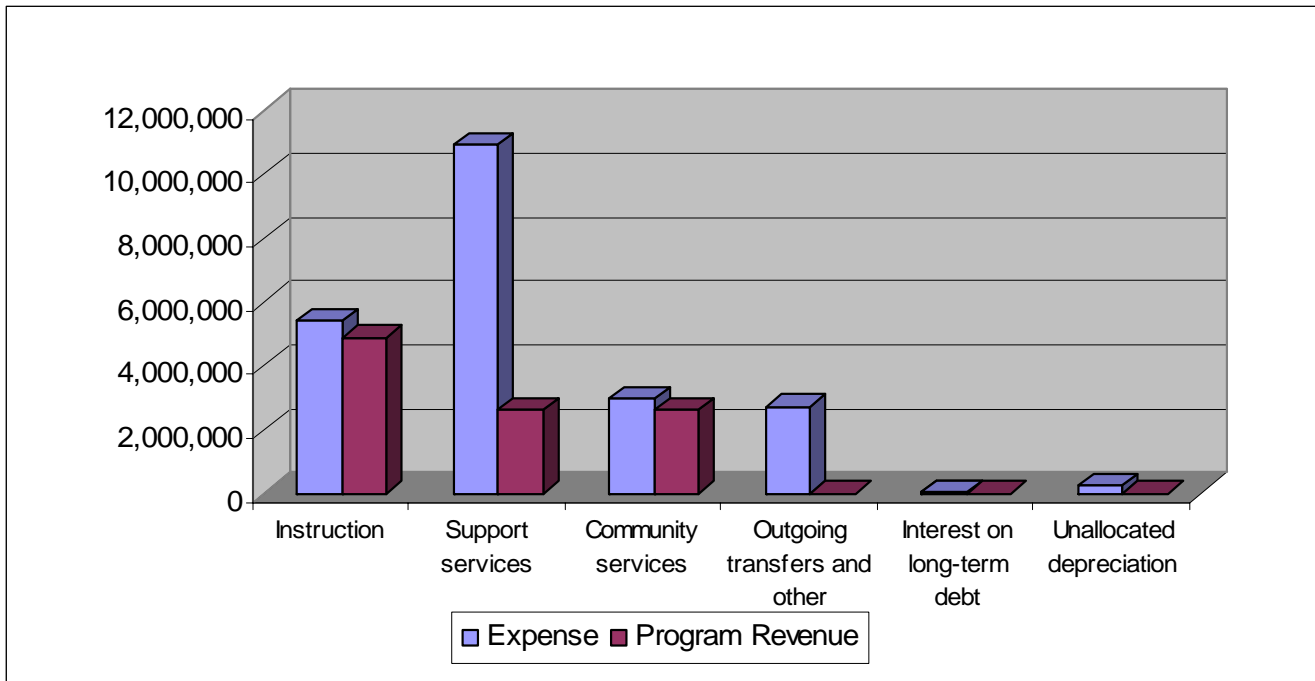
Allegan County Intermediate School District		
	2005	2004
Current assets	\$ 7,340,206	\$ 7,382,598
Noncurrent assets	5,438,350	5,599,902
Total Assets	12,778,556	12,982,500
Current liabilities	2,942,697	2,651,304
Noncurrent liabilities	537,249	607,249
Total Liabilities	3,479,946	3,258,553
Net Assets:		
Invested in capital assets, net of related debt	4,831,101	4,922,653
Restricted		8,398
Unrestricted	4,467,509	4,792,896
Total Net Assets	\$ 9,298,610	\$ 9,723,947

**Allegan County Intermediate School District
District's Changes in Net Assets**

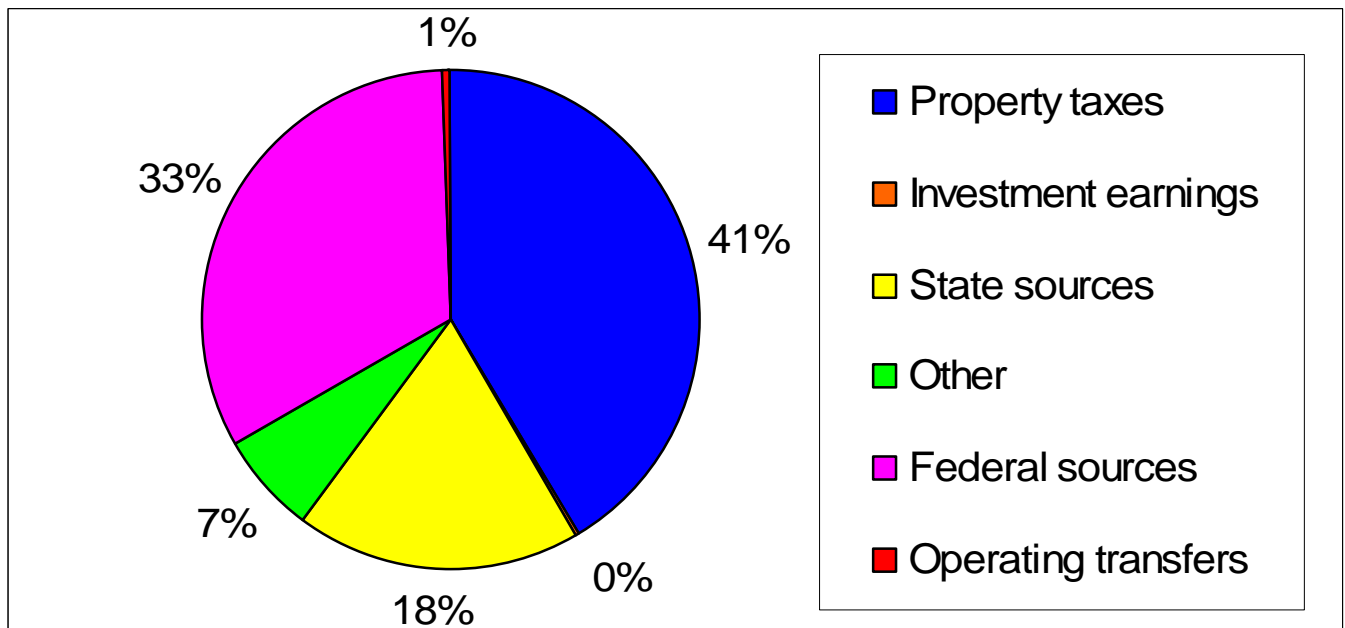
	Governmental Activities	
	2005	2004
Revenue:		
Program revenue:		
Charges for services	\$ 212,258	\$ 587,488
Operating grants	9,913,467	9,218,082
General revenue:		
Property taxes, levied for general purposes	9,130,508	8,616,685
Investment earnings	71,575	29,051
State sources	1,310,846	1,451,640
Other	1,253,704	818,713
Total Revenue	21,892,358	20,721,659
Expenses:		
Instruction	5,428,837	4,819,000
Supporting services	10,942,874	10,429,824
Community services	2,979,745	3,398,474
Outgoing transfers and other	2,710,591	2,320,667
Interest on long-term debt	29,455	32,197
Unallocated depreciation	226,193	223,722
Total Expenses	22,317,695	21,223,884
Increase (decrease) in Net Assets	(425,337)	(502,225)
Net assets, beginning of year	9,723,947	10,226,172
Net Assets, end of year	\$ 9,298,610	\$ 9,723,947

Governmental Activities. Net assets decreased by \$425,337. Key elements of this decrease were because program expenditures increased greater than revenue from property taxes and state aid.

**Expenses and Program Revenues – Governmental Activities
Year ended June 30, 2005**



**Revenues by Source – District Activities
Year ended June 30, 2005**



Major Governmental Funds Budgeting and Operating Highlights

The District's budgets are prepared according to Michigan law. The most significant budgeted funds are the general fund, special education fund, technical education fund, and cooperative programming fund.

During the fiscal year ended June 30, 2005, the District amended the budgets of these major governmental funds three times.

General Fund - The general fund actual revenue was \$3.15 million. That amount is above the original budget estimate of \$3.04 million and below the final budget amendment of \$3.31 million. The variance between the actual revenue and final budget was the result of state and federal funds that were anticipated in 2004-05 but won't be received until 2005-06. The grant revenue has been deferred to the next fiscal year.

The actual expenditures of the general fund were \$2.96 million, which is below the original budget of \$3.45 million and below the final amendment of \$3.20 million. The variance was due to technology wages and benefits that were allocated to the appropriate grant but budgeted in the general fund. This should be the only year for this variance.

General fund had total revenues of \$3.15 million and total expenditures of \$2.94 million with an ending fund balance of \$2.04 million.

Special Education Fund - The special education fund actual revenue was \$11.77 million. That amount is above the original budget of \$11.35 million and above the final amendment of \$11.62 million. The variance was the result of additional Medicaid receipts received prior to June 30 that were not anticipated. The majority of these funds are a flow-through to the local districts.

The actual expenditures of the special education fund were \$12.26 million, which is above the original budget of \$12.03 million and above the final amendment of \$12.21 million. The variance was the result of Medicaid funds, as outlined above.

Special education fund had total revenue of \$11.77 million and total expenditures of \$12.26 million with an ending fund balance of \$1.25 million.

Technical Education Fund - The technical education fund actual revenue was \$4.32 million. That amount is above the original budget of \$4.16 million and below the final amendment of \$4.35 million.

The actual expenditures were \$4.26 million, which is below the original budget of \$4.55 million and below the final amendment of \$4.42 million. The variance was due to lower than anticipated motor cycle program expenditures and operation and maintenance expenditures.

Technical education fund had total revenue of \$4.32 million and total expenditures of \$4.26 million with an ending fund balance of \$1.19 million.

Cooperative Programming Fund - The cooperative programming fund actual revenue was \$2.57 million. That amount is below the final amendment of \$2.60 million and above the original budget estimate of \$2.25 million. The variance was the result of grant money that was not fully expended at fiscal year end. The grant revenue will be deferred to the next fiscal year.

The actual expenditures of the cooperative programming fund were \$2.57 million, which is below the final budget amendment of \$2.60 million and above the original budget of \$2.25 million. The variance was due to the anticipation of fully expending the grant revenue. Expenditures will be incurred in the next fiscal year.

The cooperative programming budget does not carry a fund balance.

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds – The focus of the District’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District’s financing requirements. In particular, unreserved fund balance may serve as a useful measure of a district’s net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance and total fund balance of the general fund was \$2,040,967. As a measure of the general fund’s liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance represent approximately 68.8% of total general fund expenditures and operating transfers out.

The fund balance of the District’s general fund increased by \$191,706 during the current fiscal year. The largest revenue source in this fund is state revenue which includes state aid. Expenditures consist primarily of costs associated with supporting early education, learning resources, and a portion of the executive administration and fiscal services of the District.

The special education special revenue fund has a total fund balance of \$1,257,851, which decreased by \$486,219 from the prior year. These resources are restricted for special education programs administered by the District and transfers to local districts for special education programs. The largest portion of this funds revenues come from property taxes while the largest expenditures are for the programs at the Development Center and pupil support services to the local districts.

The technical education fund has a total fund balance of \$1,196,794, which increased by \$61,270 from the prior year. These resources are restricted for technical education purposes. The largest portion of this funds revenues come from property taxes while the expenditures are for the programs at the Technical Center.

The cooperative programming fund does not have a fund balance. The largest portion of this fund’s revenue comes from federal sources.

Capital Asset and Debt Administration

Capital Assets – At the end of fiscal year 2005, the District had \$9.71 million invested in land, buildings, and office and instructional equipment. Of this amount, \$4.27 million in depreciation has been taken over the years. The District has net capital assets of \$5.43 million.

District's Capital Assets
(Net of depreciation)
June 30,

	2005	2004
Land	\$ 391,509	\$ 391,509
Buildings and improvements	7,859,261	7,859,261
Office and instructional equipment	1,462,880	1,411,158
Subtotal	9,713,650	9,661,928
Accumulated depreciation	4,275,300	4,062,026
Total	\$ 5,438,350	\$ 5,599,902

Additional information on the District's capital assets can be found in Note 4 of this report.

Long-term Debt- at the end of the current fiscal year, the District had a total bonded debt outstanding of \$607,249. Of this balance, \$207,249 is not a general obligation of the District and does not constitute an indebtedness of the District within any constitutional or statutory limitation, and is payable solely from state aid payments from the State of Michigan. The remaining balance of \$400,000 represents general obligation bonds of the District.

The District's total debt decreased by \$70,000 during the current fiscal year, with no new debt issuances.

Additional information on the District's long-term debt can be found in Note 5 of this report.

Economic Factors and Next Year's Budget

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could affect its financial health in the future.

The continual sluggish economy in the State of Michigan has placed state aid funding for 2005-2006 in jeopardy of being prorated. State sources of revenue total \$3.99 million of the budget. Any proration of these funds could further jeopardize the financial stability of the District and force a further reduction in services.

The District has lost \$662,288 in fund balance over the past two year. The three major funds are projected to lose a combined \$214,548 in 2005-06. If this pattern should continue, the District will be forced to reduce expenditures by cutting services, search for new revenue sources, and for the first time in many years, borrow money for short-term cash flow purposes.

The Michigan Public School Employees Retirement System contribution increased to 16.34% this year, from 14.87% last year. It is possible that it could rise to 18.00% next year, an increase 10.1%. In addition, health insurance is expected to rise another 14-18% next year. These enormous increases will further erode the financial stability of the District unless changes are made in the retirement system or employee health insurance program.

Requests for information

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact Mike Hagerty, Director of Finance and Operations, Allegan County ISD, 310 Thomas St., Allegan, MI 49010.

ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

	ASSETS	<u>Governmental activities</u>
CURRENT ASSETS:		
Cash and investments		\$ 5,156,520
Receivables:		
Accounts receivable		203,396
Taxes receivable		192,393
Other governmental units		1,698,365
Inventory		<u>89,532</u>
TOTAL CURRENT ASSETS		<u>7,340,206</u>
NONCURRENT ASSETS:		
Capital assets		9,713,650
Less accumulated depreciation		<u>(4,275,300)</u>
TOTAL NONCURRENT ASSETS		<u>5,438,350</u>
TOTAL ASSETS		<u><u>\$ 12,778,556</u></u>

See notes to financial statements.

LIABILITIES AND NET ASSETS

	Governmental activities
CURRENT LIABILITIES:	
Accounts payable	\$ 82,667
Accrued salaries and related items	1,468,805
Accrued interest	33,483
Due to other governmental units	407,437
Deferred revenue	880,305
Current portion of long-term obligations	70,000
TOTAL CURRENT LIABILITIES	2,942,697
NONCURRENT LIABILITIES:	
Noncurrent portion of long-term obligations	537,249
TOTAL LIABILITIES	3,479,946
NET ASSETS:	
Invested in capital assets net of related debt	4,831,101
Unrestricted	4,467,509
TOTAL NET ASSETS	9,298,610
TOTAL LIABILITIES AND NET ASSETS	\$ 12,778,556

ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 5,428,837	\$ 107,419	\$4,774,643	\$ (546,775)
Support services	10,942,874	38,415	2,570,816	(8,333,643)
Community services	2,979,745	66,424	2,568,008	(345,313)
Outgoing transfers and other	2,710,591			(2,710,591)
Interest on long-term debt	29,455			(29,455)
Unallocated depreciation	226,193			(226,193)
Total governmental activities	<u>\$ 22,317,695</u>	<u>\$ 212,258</u>	<u>\$9,913,467</u>	(12,191,970)
General revenues:				
Property taxes, levied for general purposes				9,130,508
Investment earnings				71,575
State sources				1,310,846
Other				<u>1,253,704</u>
Total general revenues				<u>11,766,633</u>
CHANGE IN NET ASSETS				(425,337)
NET ASSETS , beginning of year				<u>9,723,947</u>
NET ASSETS , end of year				<u>\$ 9,298,610</u>

ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

		Special Revenue					
		General fund	Special Education fund	Technical Education fund	Cooperative Programming fund	Other Nonmajor Governmental funds	Total Governmental funds
ASSETS							
ASSETS:							
Cash and investments	\$	2,016,533	\$ 1,901,828	\$ 1,238,159	\$		\$ 5,156,520
Receivables:							
Accounts receivable		20,184	162,063	4,093	6,957	10,099	203,396
Taxes receivable		5,257	114,775	66,981			187,013
Due from other funds		707,802			169	395	708,366
Other governmental units		446,007	412,992	164,629	660,738	13,999	1,698,365
Inventory				89,532			89,532
	\$	3,195,783	\$ 2,591,658	\$ 1,563,394	\$ 667,864	\$ 24,493	\$ 8,043,192
LIABILITIES AND FUND BALANCES							
LIABILITIES:							
Accounts payable	\$	20,518	\$ 25,281	\$ 3,195	\$ 33,673		\$ 82,667
Accrued salaries and related items		254,030	853,578	290,894	64,677	5,626	1,468,805
Due to other funds		564	97,187	53,369	549,446	7,800	708,366
Due to other governmental units		33,368	357,761	25	16,283		407,437
Deferred revenue		846,336		19,117	3,785	11,067	880,305
TOTAL LIABILITIES		1,154,816	1,333,807	366,600	667,864	24,493	3,547,580

		Special Revenue			Other		
		General	Special	Technical	Cooperative	Nonmajor	Total
		fund	Education	Education	Programming	Governmental	Governmental
			fund	fund	fund	funds	funds
FUND BALANCES:							
Unreserved:							
Designated for subsequent years expenditures	\$ 397,338	\$		\$		\$	\$ 397,338
Undesignated	1,643,629		1,257,851		1,196,794		4,098,274
TOTAL FUND BALANCES		2,040,967	1,257,851	1,196,794			4,495,612
		\$ 3,195,783	\$2,591,658	\$ 1,563,394	\$ 667,864	\$ 24,493	\$ 8,043,192
Total Governmental Fund Balances:							\$ 4,495,612

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds

The cost of the capital assets is	\$ 9,713,650	
Accumulated depreciation is	<u>(4,275,300)</u>	5,438,350

Long-term liabilities are not due and payable in the current period and are not reported in the funds		
Bonds payable		(607,249)
Accrued interest is not included as a liability in government funds, it is recorded when paid		(33,483)
Balance of taxes receivable at June 30, 2005 less allowance for doubtful accounts, revenue expected to be collected after September 1, 2005		<u>5,380</u>
Net assets of governmental activities		<u>\$ 9,298,610</u>

ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	Special Revenue				Other nonmajor governmental funds	Total governmental funds
	General fund	Special Education fund	Technical Education fund	Cooperative Programming fund		
REVENUES AND OTHER FINANCING SOURCES:						
Local sources:						
Property taxes	\$ 256,759	\$5,606,464	\$3,271,867	\$	\$	\$ 9,135,090
Interest	26,147	26,052	18,540		836	71,575
Other	840,869	351,352	245,007	8,756	19,978	1,465,962
Total local sources	1,123,775	5,983,868	3,535,414	8,756	20,814	10,672,627
State sources	1,505,393	1,839,244	525,785	25,507	95,237	3,991,166
Federal sources	472,034	3,953,288	265,324	2,542,501		7,233,147
Operating transfers	54,514				88,285	142,799
Total revenues and other financing sources	3,155,716	11,776,400	4,326,523	2,576,764	204,336	22,039,739
EXPENDITURES AND OTHER FINANCING USES:						
Instruction:						
Added needs		3,392,169	2,036,668			5,428,837
Support services:						
Pupil		3,159,641	517,047			3,676,688
Instruction	2,024,586	18,142	93,671			2,136,399
General administration	373,558	1,621,799	189,339			2,184,696
School administration		452,415	567,037			1,019,452

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005**

Net change in fund balances total governmental funds	\$ (319,762)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(226,193)
Capital outlay	64,641

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable beginning of the year	24,042
Accrued interest payable end of the year	(33,483)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)

70,000

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Deferred revenue beginning of the year	(9,962)
Deferred revenue end of the year	5,380

Change in net assets of governmental activities	<u><u>\$ (425,337)</u></u>
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**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENT**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Allegan County Intermediate School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The Allegan County Intermediate School District (the "District") is governed by the Allegan County Intermediate School District Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement Nos. 14 and 39.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, property taxes and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENT**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and fund financial statements (Continued)

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenues) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *general fund* is the District's primary administrative fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *special education special revenue fund* which accounts for special education programs.

The *technical education special revenue fund* which accounts for technical education programs.

The *cooperative programming special revenue fund* which accounts for cooperative programs.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENT**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government–Wide and Fund Financial Statements (Concluded)

Other Non-major Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its math and science program in a special revenue fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENT**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2005, the foundation allowance was based on pupil membership counts taken in February and September of 2004.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2004 to August 2005. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENT

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2005, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General fund	0.1167
Special revenue funds:	
Special education fund	2.5482
Technical education fund	1.4871

3. Inventories and Prepaid Expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENT**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

4. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 – 20 years

The District’s capitalization policy is to capitalize individual amounts exceeding \$5,000.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENT**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

6. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight-line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general, special revenue and debt service funds. Annual appropriations lapse at year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENT**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)

2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general, special revenue and debt service funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2005. The District does not consider these amendments to be significant.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENT**

NOTE 3 - DEPOSITS AND INVESTMENTS

As of June 30, 2005, the District had the following investments.

Investment Type	Fair value	Weighted average maturity (years)	Standard & Poor's Rating	%
MILAF External Investment pool - MICMS	\$ 56	0.0027	AAAm	0.002%
MILAF External Investment pool -MIMAX	780	0.0027	AAAm	0.025%
U.S. Agency Discount Notes	399,757	0.0932	AAA	12.784%
National City Investment Pool	2,724,792	0.0027	(1)	87.189%
Total fair value	<u>\$ 3,125,385</u>			100%
Portfolio weighted average maturity		<u>0.0143</u>		

1 day maturity equals 0.0027, one year equals 1.00

(1) The National City investment pool is not rated, however, National City as a whole is rated A-1 by Standard & Poor's. The underlying assets in the pool are rated AAA.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2005, \$2,277,633 of the District's bank balance of \$2,477,633 was exposed to custodial credit risk because it was uninsured and uncollateralized.

ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENT

NOTE 3 - DEPOSITS AND INVESTMENTS (Concluded)

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously reported in Note 3:

Deposits	\$ 2,031,135
Investments	<u>3,125,385</u>
	<u><u>\$ 5,156,520</u></u>

The above amounts are reported in the financial statements as follows:

Cash and Investments - District wide	<u><u>\$ 5,156,520</u></u>
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**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENT**

NOTE 4 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Assets not being depreciated - land	\$ 391,509	\$	\$	\$ 391,509
Other capital assets:				
Buildings and improvements	7,859,261			7,859,261
Office and instructional equipment	1,411,158	64,641	12,919	1,462,880
Subtotal	9,270,419	64,641	12,919	9,322,141
Accumulated depreciation:				
Buildings and improvements	3,178,670	203,242		3,381,912
Office and instructional equipment	883,356	22,951	12,919	893,388
Net other capital assets	5,208,393	(161,552)		5,046,841
Net capital assets	\$ 5,599,902	\$ (161,552)	\$	\$ 5,438,350

Depreciation for the fiscal year ended June 30, 2005 amounted to \$226,193. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 5 - LONG-TERM DEBT

The District issues bonds to provide funds for the acquisition, construction and improvement of major facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Long-term obligations currently outstanding are as follows:

2001 general obligation - limited tax bonds (face amount \$650,000) due in annual installments ranging from \$70,000 to \$80,000 through November 1, 2011, with interest at 3.9% to 4.6%	\$ 400,000
1998 limited obligation bonds (Durant bonds) (face amount \$324,401) due in annual installments ranging from \$14,304 to \$29,294 through May 15, 2013 with interest at 4.76%. Certain state aid payments are security used to pay these bonds.	207,249
Total general long-term debt	<u>\$ 607,249</u>

Interest expense for all funds for the year ended June 30, 2005 was approximately \$36,000.

ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENT

NOTE 5 - LONG-TERM DEBT (Concluded)

The annual requirements to amortize long-term obligations as of June 30, 2005, including interest of \$118,419 are as follows:

Year ending June 30,	Principal	Interest	Total
2006	\$ 144,290	\$ 50,390	\$ 194,680
2007	91,446	20,639	112,085
2008	97,233	16,744	113,977
2009	73,054	12,563	85,617
2010	78,913	9,297	88,210
2011 through 2013	122,313	8,786	131,099
	<u>\$ 607,249</u>	<u>\$ 118,419</u>	<u>\$ 725,668</u>

At June 30, 2005, net assets of \$0 are available in the debt service fund to service the general obligation debt.

The following is a summary of long-term debt transactions of the District for the year ended June 30, 2005.

Long-term debt, June 30, 2004	\$ 677,249
Deductions:	
Bond principal payments	<u>70,000</u>
Long-term debt, June 30, 2005	607,249
Less current portion	<u>(70,000)</u>
	<u>\$ 537,249</u>

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENT**

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

Amounts due from and due to other funds at June 30, 2005 are as follows:

	Due from other funds	Due to other funds
General fund	\$ 707,802	\$ 564
Special revenue funds:		
Special education fund		97,187
Cooperative programming fund	169	549,446
Technical education fund		53,369
Math/science fund	395	7,800
	<u>\$ 708,366</u>	<u>\$ 708,366</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, Michigan 48909 or by calling (517) 322-6000.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENT**

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Concluded)

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2005 was 12.99% through September 2004 and 14.78% for October 1, 2004 through June 30, 2005. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2005, 2004 and 2003 were \$1,416,811, \$1,205,999 and \$1,225,959, respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits

Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

NOTE 8 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENT**

NOTE 8 - RISK MANAGEMENT (Concluded)

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2005 or any of the prior three years.

The District is self insured for dental and vision coverage. The current year expense for June 30, 2005 was \$230,592. A liability for incurred and unreported benefits is not considered material.

NOTE 9 - TRANSFERS

The general fund transferred \$57,574 to the debt service fund and \$30,711 to the special revenue math & science fund and the capital projects fund transferred \$54,514 to the general fund. All transfers were to assist in operations or refund amount previously transferred.

REQUIRED SUPPLEMENTARY INFORMATION

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2005**

	Original Budget	Final Budget	Actual	Variance with final budget- positive (negative)
REVENUES AND OTHER FINANCING SOURCES:				
Local sources	\$ 1,039,434	\$ 1,156,308	\$ 1,123,775	\$ (32,533)
State sources	1,523,699	1,603,058	1,505,393	(97,665)
Federal sources	449,926	503,930	472,034	(31,896)
Incoming transfers and other transactions	29,081	54,159	54,514	355
Total revenues and other financing sources	<u>3,042,140</u>	<u>3,317,455</u>	<u>3,155,716</u>	<u>(161,739)</u>
EXPENDITURES AND OTHER FINANCING USES:				
Support services:				
Instruction	2,092,781	2,132,032	2,024,586	107,446
General administration	336,297	382,327	373,558	8,769
Business	73,098	69,890	68,531	1,359
Operation and maintenance	90,279	97,993	99,956	(1,963)
Community services	609,257	316,690	184,714	131,976
Outgoing transfers and other	255,324	115,322	124,380	(9,058)
Operating transfers		89,558	88,285	1,273
Total expenditures and other financing uses	<u>3,457,036</u>	<u>3,203,812</u>	<u>2,964,010</u>	<u>239,802</u>
NET CHANGE IN FUND BALANCE	<u>\$ (414,896)</u>	<u>\$ 113,643</u>	191,706	<u>\$ 78,063</u>
FUND BALANCE:				
Beginning of year			<u>1,849,261</u>	
End of year			<u>\$ 2,040,967</u>	

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
SPECIAL EDUCATION FUND
YEAR ENDED JUNE 30, 2005**

	Original Budget	Final Budget	Actual	Variance with final budget- positive (negative)
REVENUES:				
Local sources	\$ 5,945,700	\$ 5,954,686	\$ 5,983,868	\$ 29,182
State sources	1,939,011	1,846,364	1,839,244	(7,120)
Federal sources	3,468,211	3,821,367	3,953,288	131,921
Total revenues	<u>11,352,922</u>	<u>11,622,417</u>	<u>11,776,400</u>	<u>153,983</u>
EXPENDITURES AND OTHER FINANCING USES:				
Instruction:				
Added needs	3,427,869	3,372,507	3,392,169	(19,662)
Support services:				
Pupil	3,354,967	3,221,194	3,159,641	61,553
Instruction	25,000	18,144	18,142	2
General administration	1,619,083	1,631,175	1,621,799	9,376
School administration	502,243	454,344	452,415	1,929
Business	281,575	285,487	283,551	1,936
Operation and maintenance	440,758	452,004	446,726	5,278
Transportation	257,094	193,188	193,188	
Technology services	136,559	118,805	116,221	2,584
Outgoing transfers and other	1,985,131	2,470,589	2,578,767	(108,178)
Total expenditures and other financing uses	<u>12,030,279</u>	<u>12,217,437</u>	<u>12,262,619</u>	<u>(45,182)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (677,357)</u>	<u>\$ (595,020)</u>	(486,219)	<u>\$ 108,801</u>
FUND BALANCE:				
Beginning of year			<u>1,744,070</u>	
End of year			<u>\$ 1,257,851</u>	

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
TECHNICAL EDUCATION FUND
YEAR ENDED JUNE 30, 2005**

	Original Budget	Final Budget	Actual	Variance with final budget- positive (negative)
REVENUES:				
Local sources	\$ 3,447,763	\$ 3,534,306	\$ 3,535,414	\$ 1,108
State sources	499,066	526,360	525,785	(575)
Federal sources	220,478	298,821	265,324	(33,497)
Total revenues	4,167,307	4,359,487	4,326,523	(32,964)
EXPENDITURES:				
Instruction:				
Added needs	2,190,032	2,079,827	2,036,668	43,159
Support services:				
Pupil	577,280	528,932	517,047	11,885
Instruction	93,365	93,436	93,671	(235)
General administration	209,193	193,689	189,339	4,350
School administration	618,805	584,294	567,037	17,257
Business	207,249	209,062	206,389	2,673
Operation and maintenance	467,173	461,925	436,835	25,090
Community services	188,165	272,275	218,267	54,008
Total expenditures	4,551,262	4,423,440	4,265,253	158,187
NET CHANGE IN FUND BALANCE	<u>\$ (383,955)</u>	<u>\$ (63,953)</u>	61,270	<u>\$ 125,223</u>
FUND BALANCE:				
Beginning of year			<u>1,135,524</u>	
End of year			<u>\$ 1,196,794</u>	

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
COOPERATIVE PROGRAMMING FUND
YEAR ENDED JUNE 30, 2005**

	Original Budget	Final Budget	Actual	Variance with final budget- positive (negative)
REVENUES:				
Local sources	\$	\$ 6,500	\$ 8,756	\$ 2,256
State sources		21,160	25,507	4,347
Federal sources	2,254,969	2,578,322	2,542,501	(35,821)
Total revenues	2,254,969	2,605,982	2,576,764	(29,218)
EXPENDITURES:				
Community services	2,254,969	2,605,982	2,576,764	29,218
NET CHANGE IN FUND BALANCE	<u>\$</u>	<u>\$</u>		<u>\$</u>
FUND BALANCE:				
Beginning of year				
End of year			<u>\$</u>	

ADDITIONAL INFORMATION

**ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2005**

ASSETS	Special revenue Math & Science	Debt service	Capital projects	Total nonmajor governmental funds
ASSETS:				
Cash and investments	\$	\$	\$	\$
Receivables:				
Accounts receivable	10,099			10,099
Due from other funds	395			395
Other governmental units	13,999			13,999
TOTAL ASSETS	<u>\$ 24,493</u>	<u>\$</u>	<u>\$</u>	<u>\$ 24,493</u>
 LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accrued salaries and related items	\$ 5,626	\$	\$	\$ 5,626
Due to other funds	7,800			7,800
Due to other governmental units				
Deferred revenue	11,067			11,067
TOTAL LIABILITIES	<u>24,493</u>			<u>24,493</u>
FUND BALANCES:				
Unreserved, undesignated				
TOTAL FUND BALANCES				
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 24,493</u>	<u>\$</u>	<u>\$</u>	<u>\$ 24,493</u>

ALLEGAN COUNTY INTERMEDIATE SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2005

	Special revenue Math & Science	Debt service	Capital projects	Total nonmajor governmental funds
REVENUES AND OTHER FINANCING SOURCES:				
Local sources:				
Interest	\$	\$	\$ 836	\$ 836
Other	19,978			19,978
Total local sources	19,978		836	20,814
State sources	95,237			95,237
Operating transfers	30,711	57,574		88,285
Total revenues and other financing sources	145,926	57,574	836	204,336
EXPENDITURES AND OTHER FINANCING USES:				
Support services:				
Math/science program	138,482			138,482
Capital outlay			401	401
Debt service:				
Principal repayment		70,000		70,000
Interest expense		20,014		20,014
Outgoing transfers and other	7,444			7,444
Operating transfers			54,514	54,514
Total expenditures and other financing uses	145,926	90,014	54,915	290,855
NET CHANGE IN FUND BALANCE		(32,440)	(54,079)	(86,519)
FUND BALANCES:				
Beginning of year		32,440	54,079	86,519
End of year	\$	\$	\$	\$



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Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

August 31, 2005

To the Board of Education
Allegan County Intermediate School District
Allegan, Michigan

In planning and performing our audit of the financial statements of Allegan County Intermediate School District for the year ended June 30, 2005 we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated August 31, 2005, on the financial statements of Allegan County Intermediate School District.

Prior Year Comments Resolved:

Accounts Receivable Aging

Procedures were implemented to send second invoices after an invoice is outstanding for 45 days. The aging is monitored and calls are made for any invoices outstanding after 60 days. The District feels that these procedures are adequate without preparing a documented aging of accounts receivable.

Employee Vacation Time

The District now requires all employees within the accounting department to take a week long vacation. Each business office employee is also preparing a procedures manual for their position in order to document tasks that need to be done in their absence.

Journal Entries

Journal entries are now being recorded as of the date of posting, no longer recorded in previous months.

Repeat Comments:

Grant Expenditure Reconciliation

We noted improvement in this area, however, certain grant expenditures are still not reconciled from the general ledger to the close-out reports that are submitted to the granting authorities. Reconciliation of all grant expenditures per the requests done by the grant administrator to the general ledger expense accounts should be done annually, at a minimum, in order to ensure proper reporting to federal, state and local authorities. At June 30, 2005 all reports were reconciled.

Current Year Comments:

Credit Cards

During the course of our audit, we noted that credit card transactions made by the Superintendent are authorized by the Superintendent. We recommend that someone on the Board of Education authorize the Superintendent's credit card charges, as well as expense reimbursements, in order to have adequate review procedures in place. We also noted activity was minor.

Salary Charges

Currently there are many charges for non-salaried items, such as payment to outside contractors for services, coded to salary accounts. Payroll charges are the only transactions that should be coded to the salary accounts. This change in coding will greatly ease the reconciliation process between the quarterly 941 reports and the general ledger, as well as provide a more accurate salary expenses on the general ledger.

Year-end Closing Procedures

Historically there have been many capital items purchased very near year end. This makes it difficult to have an appropriate cutoff of expenses. We understand that there is a cutoff date of May 15th for all equipment purchases, but that date is not always strictly adhered to due to many reasons. We recommend the cutoff date for equipment purchases remain in place and be followed by all departments in order to more easily perform year-end closing procedures.

New Rules For §403(b) Plans

Proposed regulations were issued last year that require a written plan document for §403(b) plans. The plan must contain all the material terms and conditions for eligibility, benefits, contribution limitations, the annuity contracts or accounts available or used under the plan for funding, and the time and form under which benefit payments will be made. There is no requirement that a single document must be used. This rule applies for tax years beginning after 2005.

The IRS recently announced that they are delaying the effective date for these rules until plan years beginning after December 31, 2006. Therefore, no action is necessary at this time.

To the Board of Education
Allegan County Intermediate School District
Allegan, Michigan

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August 31, 2005

We would recommend that you contact your attorney before the end of 2005 to assure you comply.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Allegan County Intermediate School District management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Mamie Costeniser, E. Ellis, P.C.



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August 31, 2005

To the Board of Education
Allegan County Intermediate School District
Allegan, Michigan

We have audited the financial statements of Allegan County Intermediate School District for the year ended June 30, 2005, and have issued our report thereon dated August 31, 2005. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated June 7, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. Generally Accepted Accounting Standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the Allegan County Intermediate School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the Allegan County Intermediate School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Allegan County Intermediate School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the Allegan County Intermediate School District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Allegan County Intermediate School District's compliance with those requirements.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Allegan County Intermediate School District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2005 except for adopting the new investment footnote. We noted no transactions entered into by Allegan County Intermediate School District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. No estimates are considered sensitive.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Allegan County Intermediate School District's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, several of the adjustments we proposed, whether recorded or unrecorded by the Allegan County Intermediate School District, either individually or in the aggregate, indicate matters that could have a significant effect on the Allegan County Intermediate School District's financial reporting process. A total of 27 journal entries were recorded during the audit. All entries have been approved by management.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Allegan County Intermediate School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the board of education, management, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Mamay, Costeusan & Ellis, P.C.